

Approved For Release 2007/10/19 : CIA-RDP85M00363R001002250003-3

MEMORANDUM FOR:

File

Cabinet Mdg

14-15(?)

July



Date

FORM 104 USE PREVIOUS

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MARTIN FELDSTEIN
JULY 14, 1983

THREE SUCCESSES

- 0 THE ECONOMIC RECOVERY HAS SHIFTED INTO HIGH GEAR AND IS NOW PROCEEDING AT A VERY SATISFACTORY PACE WHILE INFLATION HAS BEEN REDUCED DRAMATICALLY AND IS NOW AT A VERY MODERATE RATE.
 - THERE ARE HOWEVER SERIOUS RISKS CAUSED BY THE HIGH REAL INTEREST RATES.
- 0 THE REAGAN ADMINISTRATION HAS MADE DRAMATIC PROGRESS IN REDUCING THE GNP SHARE TAKEN BY GOVERNMENT DOMESTIC SPENDING.
- 0 THE REAGAN ADMINISTRATION HAS ALSO ACHIEVED SUBSTANTIAL REDUCTIONS IN MARGINAL AND AVERAGE TAX RATES, REVERSING A TWO-DECADE TREND.

THE RECOVERY

0 THE RECOVERY HAS SHIFTED INTO HIGH GEAR AND IS NOW PROCEEDING AT A VERY SATISFACTORY PACE.

EMPLOYMENT
(JUNE)

- TOTAL PAYROLL EMPLOYMENT UP 1.1 MILLION SINCE DECEMBER.
- TOTAL UNEMPLOYMENT RATE DOWN TO 9.8 PERCENT FROM 10.7 PERCENT IN DECEMBER.

INDUSTRIAL PRODUCTION
(MAY)

- UP 7 PERCENT IN 6 MONTHS, ALTHOUGH THE CURRENT LEVEL IS STILL 5 PERCENT BELOW THE 1979 LEVEL.

RETAIL SALES
(JUNE)

- UP 8.7 PERCENT SINCE FEBRUARY LOW.
- CONSUMER CONFIDENCE VERY STRONG: THE MICHIGAN SURVEY OF CONSUMER SENTIMENT ROSE 14 PERCENT FROM MARCH TO JUNE.

REAL GNP
(2ND QUARTER)

- UP AT 6.6 PERCENT ANNUAL RATE IN THE SECOND QUARTER.
- MOST OF THIS INCREASE REFLECTS THE ESTIMATE THAT INVENTORIES ARE NO LONGER DECLINING. FINAL SALES UP AT 2.5 PERCENT ANNUAL RATE.
- ADMINISTRATION FORECASTS 5.5 PERCENT FOR 1983, 4.5 PERCENT FOR 1984 (IMPLYING 6.4 PERCENT RATE FOR REST OF 1983).
- CONSENSUS OF PRIVATE FORECASTS 5.1 PERCENT FOR 1983, 4.5 PERCENT FOR 1984 (IMPLYING 5.6 PERCENT RATE FOR REST OF 1983.)

INFLATION

0 INFLATION HAS BEEN REDUCED DRAMATICALLY AND IS NOW AT A VERY MODERATE RATE.

CONSUMER PRICE INDEX
(MAY)

- UP ONLY 3.5 PERCENT FROM YEAR EARLIER.
- UP 5.1 PERCENT ANNUAL RATE FROM 3 MONTHS EARLIER.

PRODUCER PRICE INDEX
(MAY)

- UP ONLY 2.3 PERCENT FROM YEAR EARLIER.
- LOWER IN MAY THAN IN NOVEMBER 1982.

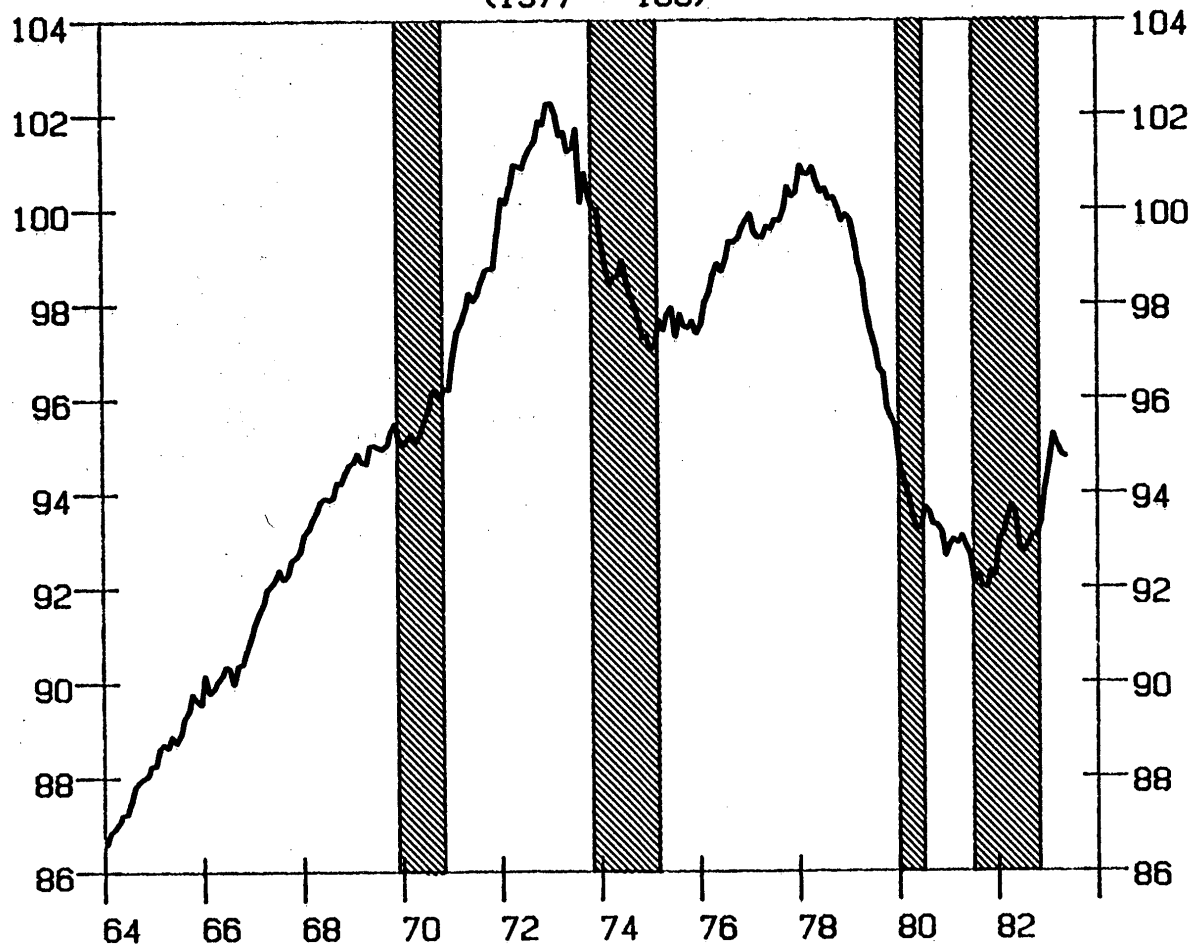
UNIT LABOR COSTS
(FIRST QUARTER)

- UP AT 1.2 PERCENT ANNUAL RATE IN NONFARM BUSINESS SECTOR, AS A RESULT OF STRONG PRODUCTIVITY RISE AND MODERATE WAGE INCREASE.
- WILL HELP TO KEEP INFLATION LOW.

0 WAGES ARE NOW RISING FASTER THAN INFLATION, RAISING EMPLOYEES' STANDARDS OF LIVING.

	PERCENT CHANGE FROM YEAR EARLIER		
	HOURLY EARNINGS	CONSUMER PRICES	REAL HOURLY EARNINGS
1978	8.1	7.7	0.5
1979	8.0	11.3	-3.1
1980	9.0	13.5	-4.0
1981	9.1	10.4	-1.0
1982	6.8	6.1	0.8
1983 MAY	4.8	3.5	1.4

REAL HOURLY EARNINGS INDEX
(1977 = 100)



INTEREST SENSITIVE SECTORS

0 THE RECOVERY IS UNEVEN AND THE INTEREST SENSITIVE SECTORS ARE LAGGING BEHIND.

- INDUSTRIAL PRODUCTION IN THE INTEREST SENSITIVE INDUSTRIES HAS NOT RISEN AS MUCH IN THIS RECOVERY AS IN THE AVERAGE OF PAST RECOVERIES.

INDUSTRIAL PRODUCTION LEVEL AS PERCENTAGE OF LEVEL AT PREVIOUS CYCLICAL PEAK

<u>INDUSTRY</u>	<u>CURRENT RECOVERY</u>	<u>SAME STAGE IN PAST FIVE RECOVERIES</u>
FOODS	100.3	102.3
TEXTILES	98.1	97.1
PAPER	103.2	100.1
PRIMARY METALS	75.6	92.0
FABRICATED METAL PRODUCTS	83.4	93.5
NONELECTRICAL MACHINERY	82.9	92.2
BUSINESS EQUIPMENT	81.0	92.9

- **CAPACITY UTILIZATION RATES VARY SUBSTANTIALLY, WITH LOW CAPACITY UTILIZATION IN INTEREST SENSITIVE SECTORS.**

<u>INDUSTRY</u>	<u>CAPACITY UTILIZATION MAY 1983</u>	<u>CAPACITY UTILIZATION 1980</u>
FOODS	80.9	85.2
TEXTILES	80.3	82.5
PAPER	86.8	88.4
PRIMARY METALS:		
IRON AND STEEL	52.2	70.0
FABRICATED METAL PRODUCTS	59.1	73.0
NONELECTRICAL MACHINERY	62.8	77.7

- ALTHOUGH RESIDENTIAL CONSTRUCTION IS DOING VERY WELL, NONRESIDENTIAL CONSTRUCTION IS LOWER THAN IT WAS BEFORE THE RECOVERY BEGAN.

PERCENT CHANGE IN THE REAL VALUE OF NEW CONSTRUCTION
FROM NOVEMBER 1982 TO MAY 1983

RESIDENTIAL CONSTRUCTION	+24 PERCENT
NONRESIDENTIAL CONSTRUCTION	-12 PERCENT
INDUSTRIAL CONSTRUCTION	-22 PERCENT
PUBLIC CONSTRUCTION	-13 PERCENT

THE REAL VALUE OF TOTAL NEW CONSTRUCTION WAS THE SAME IN MAY 1983 AND NOVEMBER 1982.

TRADE

0 HIGH REAL INTEREST RATES HAVE CAUSED THE DOLLAR TO RISE RELATIVE TO FOREIGN CURRENCIES, HURTING U.S. EXPORTS AND INCREASING IMPORTS.

- THE DOLLAR HAS INCREASED ABOUT 40 PERCENT RELATIVE TO OTHER MAJOR CURRENCIES SINCE 1980 AFTER ADJUSTING FOR DIFFERENCES IN INFLATION.
- JUST SINCE JANUARY 1983, THE DOLLAR HAS RISEN AN AVERAGE OF 7 PERCENT RELATIVE TO OTHER CURRENCIES.
- THE MERCHANDISE TRADE DEFICIT (EXCESS OF IMPORTS OVER EXPORTS) THIS YEAR IS LIKELY TO SET A RECORD OF MORE THAN \$60 BILLION, 2 PERCENT OF GNP.
- EXPORTS DROPPED 10 PERCENT FROM JANUARY TO MAY AND IMPORTS OF MANUFACTURED GOODS ROSE MORE THAN 11 PERCENT.
- SINCE THE FINAL QUARTER OF LAST YEAR, THE FALL IN NET EXPORTS REDUCED THE GROWTH OF REAL GNP BY ONE-FOURTH, TO 4.6 PERCENT IN THE FIRST HALF OF THE YEAR INSTEAD OF 6.2 PERCENT.
- MANY KEY U.S. INDUSTRIES ARE HIT PARTICULARLY HARD BY THE FALLING COMPETITIVENESS OF U.S. EXPORTS AND THE INCREASED ATTRACTIVENESS OF IMPORTS.
- THESE DEVELOPMENTS GREATLY INCREASE PRESSURE FOR PROTECTIONISM HERE WHICH WOULD INVITE RETALIATION BY FOREIGN GOVERNMENTS.

INTEREST RATES

- 0 INTEREST RATES HAVE BEEN RISING SHARPLY FOR THE PAST 10 WEEKS; SHORT RATES HAVE NOT BEEN SO HIGH SINCE LAST SUMMER AND LONG RATES SINCE LAST FALL.

<u>WEEK ENDING</u>	<u>TREASURY BILL 3 MONTH</u>	<u>TREASURY BOND 30 YEARS</u>
JAN. 1	8.01	10.45
FEB. 5	8.16	11.01
MARCH 5	7.97	10.47
APRIL 2	8.64	10.68
MAY 7	8.03	10.32
JUNE 4	8.57	10.93
JULY 2	8.88	11.07
JULY 9	9.07	11.29

- 0 REAL INTEREST RATES ARE ABNORMALLY HIGH FOR THIS STAGE OF THE RECOVERY.

<u>FIRST YEAR OF RECOVERY</u>	<u>INFLATION RATE</u>	<u>TREASURY BILL RATE</u>	<u>REAL RATE ON TREASURY BILLS</u>	<u>COMMERCIAL PAPER RATE</u>	<u>REAL RATE ON COMMERCIAL PAPER</u>
1954	-0.5	0.9	1.4	1.6	2.1
1958	1.8	1.8	0.0	2.5	0.7
1961	0.7	2.4	1.7	3.0	2.3
1971	3.4	4.3	0.9	5.1	1.7
1975	7.0	5.8	-1.2	6.3	-0.7
1980	12.4	11.4	-1.0	12.3	-0.1
1983 JULY	4.0	9.1	5.1	9.3	5.3

IT IS THIS HIGH REAL RATE OF RETURN THAT CAUSES PROBLEMS FOR THE INTEREST SENSITIVE INDUSTRIES AND FOR OUR INTERNATIONAL TRADE.

0 THE INCREASE IN SHORT-TERM MARKET INTEREST RATES IS LIKELY TO CAUSE BANKS TO RAISE THE PRIME LENDING RATE.

- THE PRIME IS NOW 10.5 PERCENT BUT IS USUALLY 2.5 PERCENT ABOVE THE T-BILL RATE. BY THAT STANDARD, WITH THE T-BILL RATE NOW 9 PERCENT, THE PRIME SHOULD NOW BE 11.5 PERCENT.

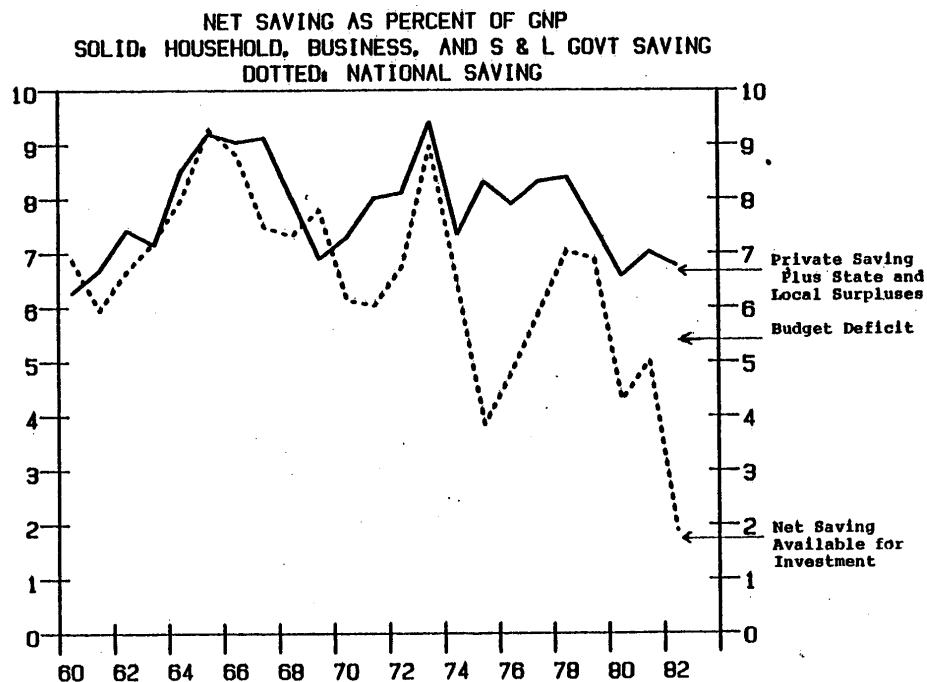
0 THE FINANCIAL MARKETS ARE EXPECTING SHORT-TERM MARKET INTEREST RATES TO RISE FURTHER DURING 1983 AND 1984.

- THE CURRENT PRICES IN THE FINANCIAL FUTURES MARKET INDICATE THAT BANKS AND OTHER FINANCIAL INVESTORS EXPECT TREASURY BILL RATES TO EXCEED 10 PERCENT BY SEPTEMBER 1984.
- THIS WOULD PUT THE PRIME RATE BACK ABOVE 12.5 PERCENT.

0 IN CONTRAST, THE ADMINISTRATION'S FORECAST ASSUMES THAT SHORT-TERM MARKET INTEREST RATES WILL FALL NEXT YEAR TO 8 PERCENT BY THE END OF 1984.

0 THE FUNDAMENTAL REASON FOR THE CURRENT HIGH LEVEL OF REAL INTEREST RATES IS THE PROJECTED LEVEL OF BUDGET DEFICITS.

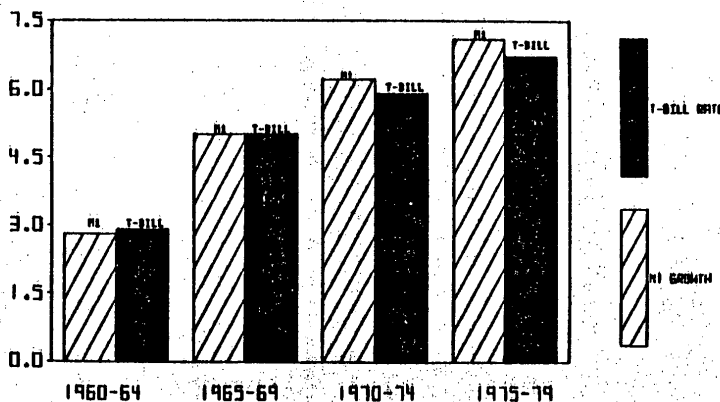
- BUDGET DEFICITS OF \$200 BILLION WOULD ABSORB ABOUT TWO-THIRDS OF NET PRIVATE SAVING. TO REDUCE BORROWING BY PRIVATE INVESTORS TO THE REMAINING AMOUNT OF FUNDS WOULD REQUIRE HIGH REAL INTEREST RATES.
- LAST YEAR AND IN THE FIRST HALF OF THIS YEAR THE AMOUNT OF NET SAVING AVAILABLE FOR INVESTMENT WAS LESS THAN 2 PERCENT OF GNP. IN CONTRAST, SINCE 1960 IT HAS AVERAGED ABOUT 6 PERCENT OF GNP.
- AS LONG AS THE FED FOLLOWS A PRUDENT MONETARY POLICY THAT AVOIDS RISING INFLATION, LARGE OUTYEAR DEFICITS WILL INEVITABLY MEAN HIGH REAL INTEREST RATES.



0 ALTHOUGH THE FEDERAL RESERVE COULD TEMPORARILY LOWER SHORT-TERM INTEREST RATES BY EXPLICITLY ADOPTING A POLICY OF RAPID EXPANSION OF THE MONEY STOCK, THIS WOULD SUBSEQUENTLY LEAD TO HIGHER RATES OF INFLATION AND HIGHER MARKET RATES OF INTEREST.

- EXPERIENCE SHOWS THAT FASTER MONEY GROWTH LEADS TO HIGHER INFLATION AND HIGHER INTEREST RATES.

GROWTH IN M1 MONEY SUPPLY AND
AVERAGE THREE-MONTH TREASURY BILL RATE



MONEY GROWTH, INFLATION, AND INTEREST RATES

PERIOD	AVERAGE M1 GROWTH	AVERAGE CPI INFLATION	AVERAGE 3-MONTH TREASURY BILL RATE
1960-64	2.8	1.2	2.9
1965-69	5.0	3.8	5.0
1970-74	6.2	6.7	5.9
1975-79	7.1	8.2	6.7

RISKS TO RECOVERY

- O REAL INTEREST RATES THAT REMAIN HIGH OR RISE FURTHER WILL SLOW THE GROWTH OF THE ECONOMY NEXT YEAR AND RAISE THE RISK THAT A NEW RECESSION WILL BEGIN IN 1984 OR 1985.
- ALTHOUGH A CONTINUED RECOVERY IS MORE LIKELY THAN NOT NEXT YEAR EVEN WITH THE CURRENT LEVEL OF INTEREST RATES, THERE IS PROBABLY ONE CHANCE IN THREE THAT THE RECOVERY WILL END IN 1984 IF THESE INTEREST RATES CONTINUE.
- O EXPERIENCE SHOWS THAT IT IS VERY EASY FOR A RECOVERY TO RUN OUT OF STEAM AND DECLINE TO A VERY LOW GROWTH RATE IN THE SECOND YEAR.

<u>RECOVERY STARTING</u> <u>YEAR</u>	<u>QUARTER</u>	<u>REAL GNP GROWTH</u>	
		<u>1ST YEAR</u>	<u>2ND YEAR</u>
1954	II	7.4	2.6
1958	II	8.4	1.7
1961	I	7.0	3.3
1970	IV	4.7	7.0
1975	I	6.7	4.4
1980	III	3.2	-1.9

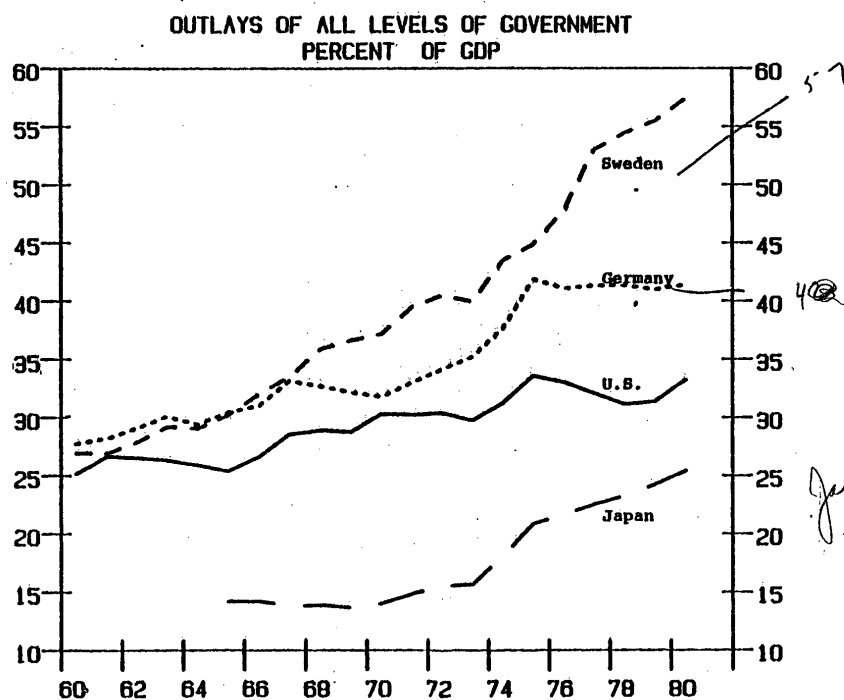
A GROWTH RATE OF LESS THAN 2.5 PERCENT WOULD PROBABLY CAUSE UNEMPLOYMENT TO RISE.

*Less than 2% growth
will cause unemployment to rise*

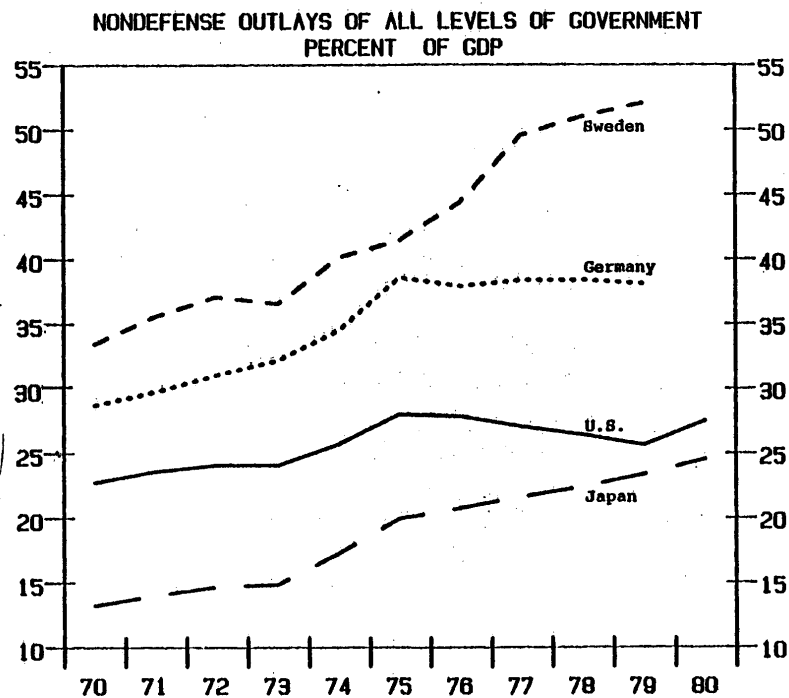
GOVERNMENT SPENDING

O THE REAGAN ADMINISTRATION HAS MADE DRAMATIC PROGRESS IN REDUCING THE GNP SHARE TAKEN BY GOVERNMENT DOMESTIC SPENDING.

- FOREIGN EXPERIENCE SHOWS HOW STRONG PRESSURES HAVE INCREASED THE SHARE OF GNP TAKEN BY GOVERNMENT OUTLAYS.



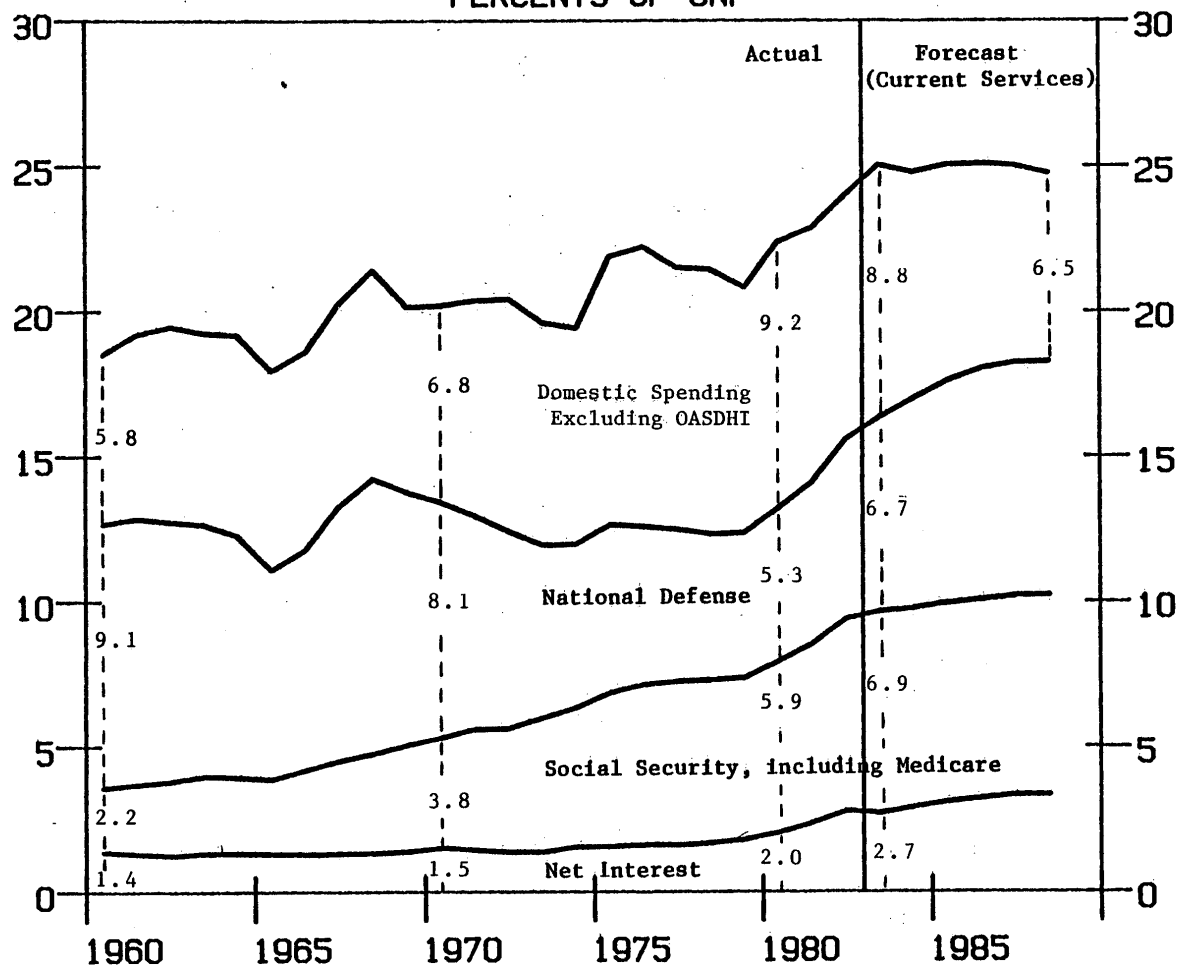
- IN THE 1970'S, NONDEFENSE OUTLAYS GREW MUCH FASTER THAN GNP IN SWEDEN, GERMANY AND JAPAN.
- THE RELATIVE GROWTH OF NONDEFENSE OUTLAYS WAS LOWEST IN THE UNITED STATES BUT EVEN HERE NONDEFENSE OUTLAYS ROSE FROM 23 PERCENT TO 28 PERCENT.



0 TOTAL FEDERAL GOVERNMENT OUTLAYS IN THE UNITED STATES HAVE GROWN FROM 19 PERCENT OF GNP IN 1960 TO 25 PERCENT THIS YEAR.

- ALMOST THE ENTIRE GROWTH CAN BE ACCOUNTED FOR BY THE RISE IN SOCIAL SECURITY PROGRAMS AND INTEREST ON THE NATIONAL DEBT. ✓
- INTEREST PAYMENTS AS A SHARE OF GNP DOUBLED -- FROM 1.4 PERCENT TO 2.7 PERCENT
- THE SOCIAL SECURITY AND MEDICARE SHARE TRIPLED -- FROM 2.2 PERCENT TO 6.9 PERCENT
- OTHER DOMESTIC SPENDING ROSE 50 PERCENT -- FROM 5.8 PERCENT TO 8.8 PERCENT
- THE DEFENSE SHARE FELL BY ONE-FOURTH -- FROM 9.1 PERCENT TO 6.7 PERCENT

FEDERAL BUDGET OUTLAYS PERCENTS OF GNP



0 THE REAGAN ADMINISTRATION HAS SUCCEEDED IN REVERSING THE DECLINE OF THE DEFENSE SHARE AND THE RISE OF THE GENERAL DOMESTIC SPENDING SHARE.

- DEFENSE OUTLAYS ROSE FROM 5.3 PERCENT OF GNP IN 1980 TO 6.7 PERCENT IN 1983.
- GENERAL DOMESTIC OUTLAYS (EXCLUDING OASDHI) FELL FROM 9.2 PERCENT OF GNP IN 1980 TO 8.8 PERCENT IN 1983.

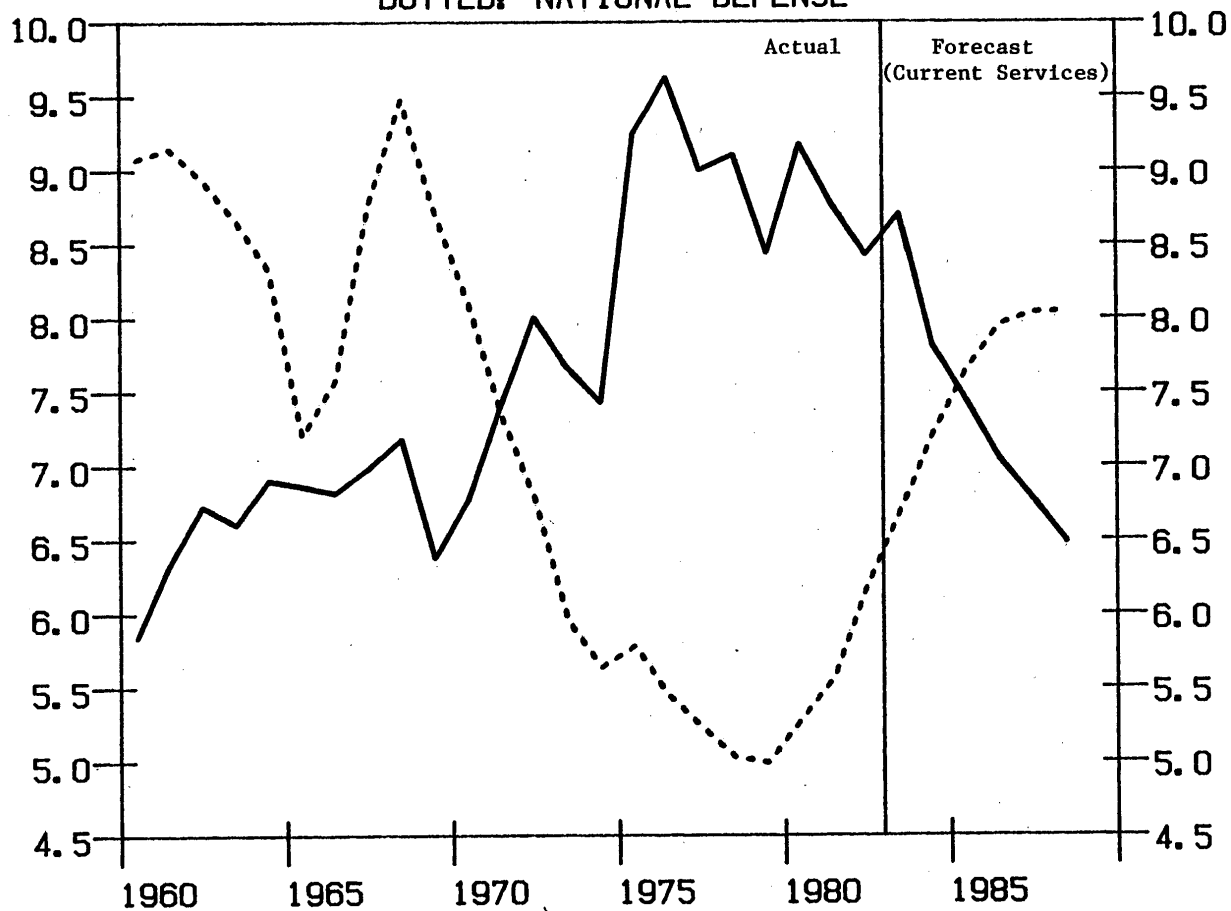
0 THE EXTENT OF OUR SUCCESS IN SHRINKING DOMESTIC SPENDING IS HIDDEN BY THE RECESSION.

- IN FY 1980, THE UNEMPLOYMENT RATE WAS 6.8 PERCENT. IF THE UNEMPLOYMENT RATE IN FY 1983 WERE ALSO 6.8 PERCENT, GENERAL DOMESTIC SPENDING WOULD NOW BE 7.5 PERCENT OF GNP, ABOUT ONE-FIFTH LOWER THAN THE 9.2 PERCENT SHARE IN 1980. ✓

0 THE CURRENT SERVICES BUDGET SHOWS A REMARKABLE CONTINUING DECLINE IN DOMESTIC SPENDING OVER THE NEXT FIVE YEARS.

- WITHOUT FURTHER LEGISLATION, THE DOMESTIC SPENDING SHARE (EXCLUDING OASDHI) WILL BE BACK TO THE LEVEL OF THE MID-1960'S IF WE CAN HOLD CONGRESS TO THE CURRENT SERVICES LEVEL.
- THE CURRENT SERVICES LEVEL OF DOMESTIC SPENDING IS 7.8 PERCENT OF GNP IN 1984 AND 6.5 PERCENT IN 1988.

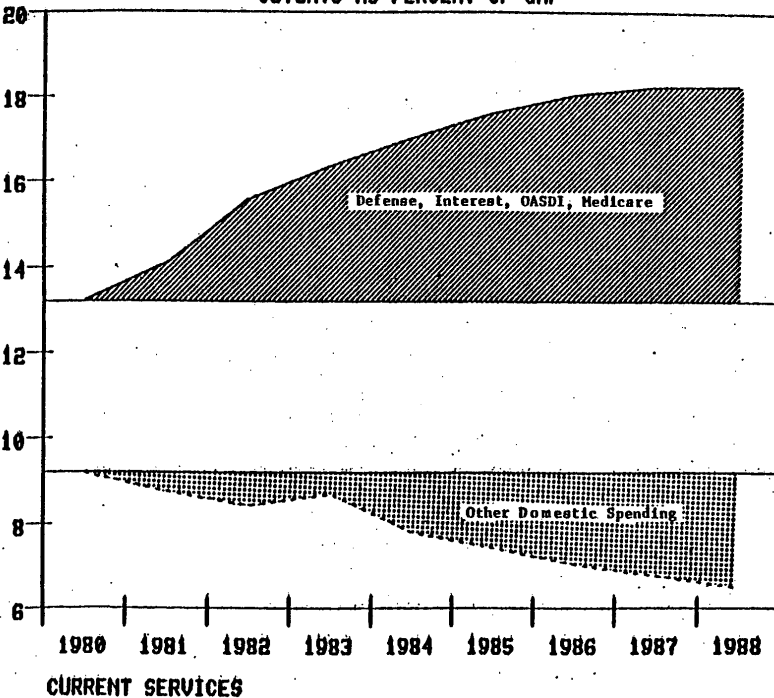
FEDERAL BUDGET OUTLAYS AS PERCENT OF GNP
SOLID: DOMESTIC SPENDING EXCLUDING OASDHI
DOTTED: NATIONAL DEFENSE



0 UNFORTUNATELY THE PROGRESS IN SHRINKING GENERAL DOMESTIC SPENDING DOES NOT REDUCE THE NEED FOR REVENUE BECAUSE OF THE GROWTH OF THE GNP SHARES TAKEN BY INTEREST, OASDHI AND DEFENSE.

- THAT'S WHY EVEN WITH THE ADMINISTRATION'S SPENDING CUTS OUR BUDGET CALLS FOR THE STANDBY TAX AS PART OF THE PLAN TO SHRINK DEFICITS.

OUTLAYS AS PERCENT OF GNP

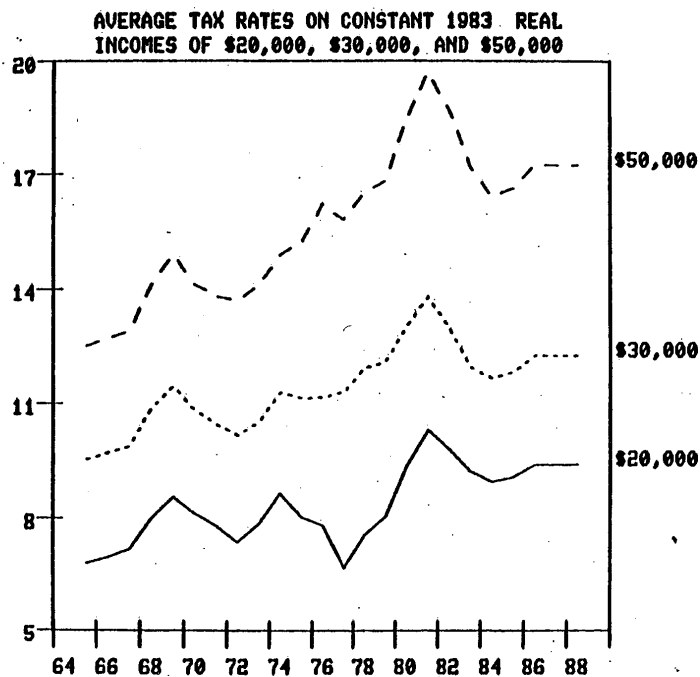


	1980	1988		CHANGE	
	CURRENT SERVICES	ADMINIS- TRATION	CURRENT SERVICES	ADMINIS- TRATION	
DOMESTIC SPENDING (EXCEPT OASDHI)	9.2	6.5	5.7	-2.7	-3.5
OASDHI	5.9	6.9	6.6	+1.0	+0.7
DEFENSE	5.3	8.0	7.8	+2.7	+2.5
INTEREST	2.0	3.4	2.8	+1.4	+0.8

TAXES

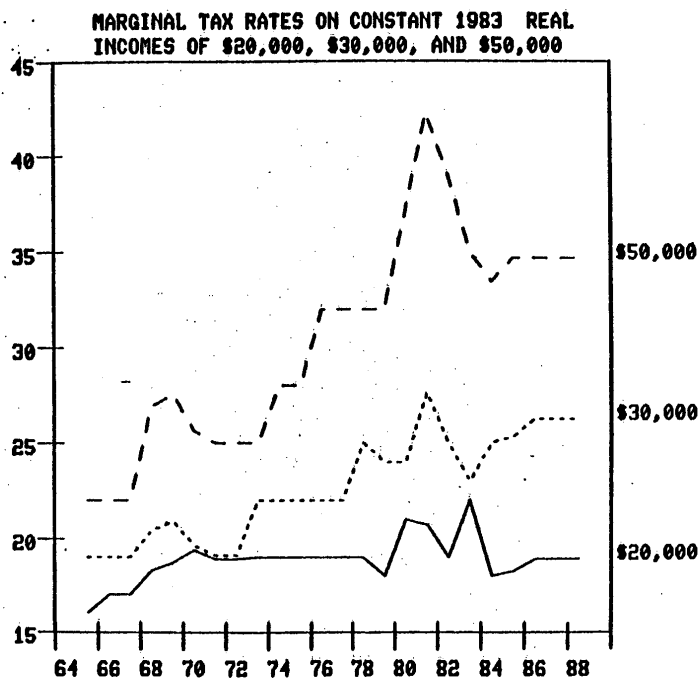
0 **THE REAGAN ADMINISTRATION HAS REDUCED TAX RATES SIGNIFICANTLY, REVERSING A TWO-DECADE TREND.**

- THIS CHART SHOWS THE DECLINE IN THE AVERAGE TAX RATES -- THE SHARES OF INCOME TAKEN IN TAXES -- SINCE 1981. THE ANALYSIS COMPARES FAMILIES AT THREE LEVELS OF REAL INCOME SINCE 1965.
- THE TAX RATES INCLUDE THE 5 PERCENT SURCHARGE OF THE STANDBY TAX AFTER OCTOBER 1985.



0 **THE MARGINAL TAX RATES ON ADDITIONAL EARNINGS FELL EVEN MORE SINCE THE START OF THE REAGAN ADMINISTRATION.**

- THESE MARGINAL TAX RATES INCLUDE THE 5 PERCENT SURCHARGE OF THE STANDBY TAX AFTER OCTOBER 1985.



- 0 ALTHOUGH SOCIAL SECURITY PAYROLL COLLECTIONS HAVE RISEN RAPIDLY OVER THE PAST TWO DECADES, THE SHARE OF GNP TAKEN IN ALL OTHER TAXES IS ACTUALLY LOWER TODAY THAN IN THE PAST AND WILL REMAIN LOWER EVEN WITH THE STANDBY TAX.

	RECEIPTS AS PERCENTAGE OF GNP				
	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1983</u>	<u>1988</u>
					ADMINISTRA- TION BUDGET
OASDHI	3.0	4.6	6.1	6.6	7.3
TAXES	15.6	15.3	14.0	12.0	13.4

- THE 1988 ADMINISTRATION BUDGET INCLUDES THE FULL STANDBY TAX; THE CURRENT SERVICES BUDGET EXCLUDES THE STANDBY TAX.
- THE DECREASING TAX SHARE OF GNP REFLECTS THE DECLINE IN THE AMOUNTS COLLECTED INDIRECTLY AS EXCISE TAXES AND CORPORATE TAXES.

- 0 THE DISTINCTION BETWEEN OASDHI PAYROLL COLLECTIONS AND ALL OTHER TAXES IS IMPORTANT BECAUSE FOR MOST INDIVIDUALS SOCIAL SECURITY IS NOT A TAX ON ADDITIONAL INCOME:

- THE MAXIMUM TAX IS PAID ON INCOMES OF \$35,700. INCREASES IN INCOME OVER THAT AMOUNT ARE NOT TAXABLE.
- FOR THE MAJORITY OF LOWER INCOME INDIVIDUALS, ANY INCREASE IN TAXES BRINGS WITH IT AN INCREASE IN BENEFITS OF EQUAL VALUE.

0 THE PROJECTED DEFICITS REFLECT THE GROWING GAP BETWEEN GENERAL TAX RECEIPTS AND OUTLAYS OTHER THAN SOCIAL SECURITY AND MEDICARE.

	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>PERCENT OF GNP</u>	
				<u>1988</u>	
				<u>CURRENT SERVICES</u>	<u>ADMINISTRATION BUDGET</u>
<u>TAXES</u>	15.6	15.3	14.0	12.2	13.4
<u>OUTLAYS</u> <u>(EXCEPT</u> <u>OASDHI)</u>	16.3	16.4	16.5	17.9	16.2
DEFENSE	(9.1)	(8.1)	(5.3)	(8.0)	(7.8)
DOMESTIC	(5.8)	(6.8)	(9.2)	(6.5)	(5.7)
INTEREST	(1.4)	(1.5)	(2.0)	(3.4)	(2.8)
<u>GENERAL REVENUE</u> <u>DEFICIT</u>	<u>0.7</u>	<u>1.1</u>	<u>2.5</u>	<u>5.6</u>	<u>2.8</u>
<u>OASDHI DEFICIT</u>	<u>-0.7</u>	<u>-0.8</u>	<u>-0.2</u>	<u>0.0</u>	<u>-0.7</u>

Insert deficit as per

THE ADMINISTRATION BUDGET INCLUDES THE STANDBY TAX AFTER OCTOBER 1985.

SUMMARY

- 0 THE ECONOMIC RECOVERY IS NOW PROCEEDING AT A VERY DESIRABLE PACE.
- 0 A RECOVERY WITH STABLE OR DECLINING INFLATION CAN ONLY BE SUSTAINED WITH SOUND POLICY.
- 0 THE GREATEST RISK TO THE RECOVERY IS HIGH REAL INTEREST RATES.
- 0 AN EASY MONEY POLICY CANNOT PRODUCE A SUSTAINED LOW LEVEL OF INTEREST RATES BUT WOULD RAISE THE INFLATION RATE.
- 0 THE KEY TO LOWER INTEREST RATES WITHOUT RISING INFLATION IS LOWER BUDGET DEFICITS IN FY 1986 AND BEYOND.
- 0 THE ADMINISTRATION HAS MADE DRAMATIC PROGRESS IN PUTTING THE DOMESTIC SPENDING SHARE OF GNP ON A DRAMATICALLY DECLINING PATH.
- 0 THE ADMINISTRATION HAS ALSO ACHIEVED SUBSTANTIAL REDUCTION IN MARGINAL AND AVERAGE TAX RATES.

Calendar Year	GNP			GNP in 1972 Dollars			GNP Deflator		
	Level (\$ billion)	Percent YR/YR	Change 4Q/4Q	Level (\$ billion)	Percent YR/YR	Change 4Q/4Q	Level (\$ billion)	Percent YR/YR	Change 4Q/4Q
1982	3059.3	4.1	3.5	1476.9	-1.7	-0.9	207.14	5.9	4.4
1983	3298.8	7.8	10.4	1522.4	3.1	5.5	216.68	4.6	4.6
1984	3635.9	10.2	9.7	1601.5	5.2	4.5	227.03	4.8	5.0
1985	3972.6	9.3	9.0	1668.5	4.2	4.0	238.09	4.9	4.8
1986	4321.8	8.8	8.7	1735.2	4.0	4.0	249.07	4.6	4.5
1987	4696.7	8.7	8.7	1804.6	4.0	4.0	260.26	4.5	4.5
1988	5101.2	8.6	8.6	1876.7	4.0	4.0	271.82	4.4	4.4

Calendar Year	Unemployment Rate (4th Quarter)
1982	10.5
1983	9.6
1984	8.6
1985	8.0
1986	7.3
1987	6.6
1988	5.9